

City of Takoma Park

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7500 Maple Avenue
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Barbara B. Matthews, City Manager

April 6, 2007

Members of the Takoma Park City Council:

I am pleased to present for your review and consideration my proposed budget for Fiscal Year 2008 ("FY08") for the City of Takoma Park. The preparation of this proposed budget is a significant undertaking by the Management Team and other staff members, and I wish to take this opportunity to express my appreciation to all of them. I would like to particularly acknowledge the contribution of Deputy City Manager Wayne Hobbs and Director of Finance Yovonda Brooks.

My recommended budget takes into account two key objectives, which are outlined below:

The maintenance of adequate financial reserves to address timing differences in the City's receipt of monies and to avoid any disruption in services caused by a decline in a significant revenue source; and,

The maintenance of Takoma Park's infrastructure and the City's vehicle and equipment fleet.

My recommended budget also reflects the priorities agreed upon by the Council in early 2006. As directed by the Council, these priorities will continue to guide staff's activities in FY08. They are:

Preservation of affordable housing in the community

Completion of the Community Center and exploration of the proposed gymnasium

Promotion of appropriate development in various areas of the City of Takoma Park

Redevelopment of the New Hampshire Avenue corridor; and,

Fairer tax duplication payments from Montgomery County.

The proposed budget includes the financial and staffing resources necessary to advance the City's progress in the aforementioned areas. These resources are highlighted later in this transmittal message.

The FY08 budget accounts for the City's financial activities through three primary funds or fiscal entities. They are the General Fund, the Stormwater Management Fund, and the Special Revenue Funds (comprised of several sub-funds). No budget is proposed for the Community Center Fund, pending further direction from the Council.

Combined expenditures for all funds equal \$20,545,625. Combined revenues for all funds total \$19,130,449. The difference reflects the use of fund balance, including monies set aside in the Equipment Replacement Reserve and cable equipment capital grant funds.

This transmittal message includes a brief overview of each fund and provides information on anticipated revenues and expenditures for FY08.

GENERAL FUND

The General Fund accounts for the day-to-day operational activities of the City, such as police protection, snow removal, and general administration. Departmental activities included in the General Fund are as follows:

- General Government
- Police
- Public Works
- Recreation
- Housing and Community Development
- Communications
- Library

In addition to the aforementioned operational activities of the City, the General Fund also provides for certain expenditures that are not related to a particular department. These costs, classified as "non-departmental" for budgetary purposes, include general liability and other insurance coverage and the City's local supplement to the State Homeowner's Property Tax Credit.

The General Fund provides for principal and interest payments on the City's outstanding debt obligations. These obligations, which were incurred as a result of long or short-term borrowing or lease financing, are accounted for in the debt service division of the General Fund.

The City's capital expenditures are recorded in the General Fund. These expenditures include purchase of vehicles and equipment as well as the cost of infrastructure-related projects, including street improvements. Certain monies are set aside for the scheduled replacement of vehicles and equipment; these funds are accounted for in the Equipment Replacement Reserve.

General Fund Revenues

Almost two-thirds of General Fund revenues are derived from taxes and utility fees. The second largest source is intergovernmental revenues.

The following table summarizes projected General Fund revenues for FY08 by source. Budgeted and estimated revenues for FY07 are provided for comparative purposes.

Revenue Source	Budgeted FY07	Estimated FY07	Proposed FY08
Taxes and utility fees	\$10,899,792	\$11,312,168	\$12,096,745
Licenses and permits	56,754	74,206	57,654
Fines and forfeitures	175,000	170,500	176,000
Use of money and property	110,000	272,610	200,000
Charges for service	727,900	707,261	848,880
Intergovernmental	4,478,646	4,484,401	4,586,765
Miscellaneous	61,000	80,018	105,000
Total Revenues	\$16,509,092	\$17,101,164	\$18,071,044

Like other predominantly residential communities, property taxes constitute the primary source of the City's operating revenues. Tax receipts from real property are projected to account for 49 percent of total General Fund revenues in FY08.

Property values in Takoma Park continue to be strong, with many properties experiencing a significant increase in valuation. According to the Maryland Department of Assessments and Taxation, the City's assessable real property base (net) is estimated to increase by approximately \$153.5 million or 11.8 percent from the prior year.

The State Homestead Property Tax Credit limits the increase in taxable assessments each year to ten percent for property owners that meet certain criteria. Technically, the Homestead Credit does not limit the market value of the property as determined by the Department of Assessments and Taxation but limits the increase on the amount to be taxed to no more than ten percent.

The real property tax rate in FY07 was \$0.63 per \$100 of assessed valuation. The proposed rate for FY08 is \$0.61 per \$100 of assessed valuation, which will generate increased revenues of about \$807,000 compared to FY07.

Tax duplication payments from Montgomery County constitute the second largest source of the City's operating revenues. Commonly referred to as "rebates," these payments are intended to compensate Takoma Park for taxes paid to Montgomery County for services provided by the City of Takoma Park.

The Tax and Service Duplication Issues (TASDI) Committee was appointed by the City Council in the fall of 2004 to review and to provide recommendations concerning the payments the City receives from Montgomery County. As stated in the Committee's report of April 2005, "...the County's rebate to the City was significantly less than the City's actual costs for delivering duplicative services, and far less than the amount the County would likely spend if the City elected not to provide those services." The TASDI Committee recommended that Takoma Park negotiate a more accurate and fair rebate from Montgomery County for services provided by the City.

Working in conjunction with other municipalities in Montgomery County, the City was successful in securing a commitment from the County Executive to review the current methodology used to calculate municipal tax duplication payments. The work of the County/Municipal Revenue Sharing Task Force is tentatively scheduled to get underway in late April.

Pending completion of the Task Force's work, the County Executive agreed to hold all FY08 tax duplication payments at the FY07 level. In FY08, the City will receive approximately \$3.0 million in tax duplication payments, which equates to 16.6 percent of General Fund revenues in FY08. Under the current methodology, the amount received by Takoma Park would have resulted in a revenue loss of about \$214,000.

Income taxes are another major source of operating revenues for the City. Like other jurisdictions in Montgomery County, the City has experienced difficulty in accurately projecting revenues from this source. Historically, the City has received a significant payment towards the end of the fiscal year, which is posted as an audit adjustment. With the goal of arriving at a more accurate estimate of revenues from income taxes for FY08, the Director of Finance consulted with officials from Montgomery County as well as the State of Maryland. In FY08, I anticipate that the City will receive about \$2.1 million, which equates to 11.5 percent of total General Fund revenues.

In reviewing General Fund revenues for FY08, there are several additional areas that I would like to emphasize. These areas are as follows:

Revenues from the investment of City funds are projected to increase by \$90,000 compared to budgeted revenues for FY07 due to higher interest rates and strong cash management practices.

The City requested and received an increase in the operating grant that it receives for the New Hampshire Avenue Recreation Center. The City will receive an additional \$25,000 to address the utility costs for the Center.

The City will receive increased funding for the operation of the day laborer site since it is unclear when the permanent Prince George's County center will open. Given that the County is fully funding the other centers in the County, staff requested full financial support for FY08, which equates to additional revenue in the amount of \$31,000.

General Fund Expenditures

My recommended budget reflects total General Fund expenditures of approximately \$19.4 million. The following table summarizes proposed expenditures for FY08 by department or budget unit. Budgeted and estimated expenditures for FY07 are provided for comparative purposes.

Department/Budget Unit	Budgeted FY07	Estimated FY07	Proposed FY08
General Government	\$ 2,045,372	\$ 1,941,536	\$ 2,272,324
Police	5,006,654	4,862,937	5,366,755
Public Works	3,507,759	3,322,898	3,758,072
Recreation	1,176,307	963,079	1,265,035
Housing & Comm. Development	1,349,500	1,298,544	1,456,868
Communications	360,484	353,169	386,695
Library	880,054	873,430	938,348
Non-departmental	1,263,977	893,743	1,784,626
Capital outlay	1,280,015	1,231,456	1,150,593
Debt service	1,055,193	990,242	1,032,493
Total Expenditures	\$17,925,315	\$16,731,034	\$19,411,809

Proposed fund expenditures are up by approximately \$1.5 million compared to budgeted expenditures for FY07. A significant portion of this amount is the result of non-recurring initiatives or capital projects, some of which are described later in this transmittal message. Because revenues are projected to exceed the budgeted amount in FY07 and fund expenditures are estimated to come in significantly under budget, there are sufficient reserve funds to fund these one-time expenditures in FY08.

Like other service agencies, the majority of the City's operational costs are personnel-related, accounting for 56 percent of total General Fund expenditures in FY08. Of the \$1.5 million increase in the General Fund budget compared to the prior year, \$826,000 is attributable to personnel-related costs. I would like to highlight the following areas relative to personnel-related costs in my recommended budget for FY08:

The City's compensation plan, approved by the Council and implemented in FY00, provides for a market adjustment to be implemented on July 1st of each year. The market adjustment is the annual percent of change in the Department of Labor Wage and Salaries Employment Cost Index for State and Local Government as of the end of December. The December 2006 index reflects an increase of 3.5 percent.

The base contribution rate for the State Retirement Plan has increased, resulting in an additional cost of about \$160,000. The Plan covers civilian employees working 20 hours or more per week.

A 20 percent increase in the cost of employee health insurance is anticipated.

All 41 commissioned/uniformed positions in the Police Department are fully funded. In both FY06 and FY07, the Council reduced the department's personnel budget because the department was significantly understaffed. I anticipate that the department will be at full strength as of July 1, 2007.

The proposed budget reflects the addition of a crime analyst position in the Police Department. Since he joined the City staff in late February 2007, I have had extensive discussions with Chief Ronald A. Ricucci concerning a comprehensive policing strategy for the City of Takoma Park to ensure our responsiveness to all segments of the community. The Chief has recommended that the \$75,000 allocated in the FY07 budget to enhance cross-jurisdictional cooperation with the Metropolitan Police Department be utilized to hire a crime analyst to meet the objectives set forth by the Council. A crime analyst would facilitate the sharing of information between the Takoma Park Police Department and other law enforcement agencies, as well as to enhance the department's ability to provide information to the community. Additionally, Chief Ricucci plans to reorganize the current manner in which departmental staffing resources are deployed to increase visibility, not only in the Old Town business district and the residential areas adjacent to the District of Columbia border but throughout the community.

The Public Works Department currently has three part-time custodial positions working just under 20 hours per week. As proposed, these positions would be restructured to provide for one full-time position and one part-time position working 15 hours per week. The proposed budget reflects the additional cost of the fringe benefits that would be provided to this full-time employee.

The main reception desk is staffed by the Administration Department between the hours of 8:30 a.m. and 5:00 p.m., Monday through Friday. Multiple part-time Recreation Department employees provide coverage during the evening and on the weekend. To provide better customer service and oversight, I recommend that the City restructure the staffing hours allocated to the Recreation Department by creating a full-time position that would be responsible for staffing the main reception desk Tuesday through Saturday from 2:00 p.m. to closure of the building. The proposed budget reflects the additional cost of the fringe benefits that would be provided to this full-time employee.

In FY07, the City began offering before-school care. Participation in the after-school enrichment program has grown steadily in recent years. The Recreation Director has recommended that the current part-time staffing hours allocated to the before-school and after-school programs be consolidated to create a 35-hour per week position that could provide oversight and coordination of both programs; this position would be eligible for fringe benefits in accordance with City policy.

While personnel-related costs account for a significant share of the increase in General Fund expenditures compared to the prior year, there are other projects/initiatives that I would like to call to your attention. They are described below:

As noted at the beginning of this transmittal message, the Council has agreed that the redevelopment of the New Hampshire Avenue corridor is one of its primary focuses for FY08. In February 2007, the Council conceptually gave approval to the undertaking of a charrette for the redevelopment of the Ethan Allen Gateway located at the intersection of New Hampshire Avenue and Ethan Allen. A Request for Proposal has been issued, and a portion of the work is expected to take place in FY08. In addition to carryover monies (\$30,000) for completion of the Ethan Allen Gateway charrette, the Housing and Community Development budget includes funding in the amount of \$141,000 for additional community planning efforts, marketing surveys, and other tasks related to the New Hampshire Avenue corridor initiative.

The City's take-home car program for police officers was expanded in FY07 in order to enhance the City's recruitment efforts and employee retention. Funding for the program was included in Capital Outlay. The Director of Finance subsequently determined that the acquisition of these vehicles constituted a capital lease, and the associated lease payment should be reflected in the debt service division. A budget amendment for FY07 will be submitted to the Council in the near future to reflect this change in accounting methodology. The lease payment in FY08 will be \$170,706, reflecting the payment due on the existing 15 leased vehicles and the five to be acquired in FY08.

The Public Works Department reflects increased funding in the amount of \$30,000 for hazard and health pruning of trees located on City property. The goal is to extend the life of the trees by providing better health maintenance, thereby preserving more of the urban forest in the City.

The Housing and Community Development budget includes funding in the amount of \$25,000 for continued support of the Main Street initiative.

The Housing and Community Development Department budget includes funding in the amount of \$25,000 for neighborhood-specific traffic studies. This is a continuation of the initiative undertaken in FY07.

The Capital Outlay budget includes \$100,000 for infrastructure improvements to enhance pedestrian safety.

The Capital Outlay budget includes \$95,000 for the replacement of the City-owned and maintained decorative lights in Takoma Junction. The fixtures are more than 20 years old and have deteriorated over time, creating a risk management concern. The requested funding would provide for replacement of the existing steel poles with a fiberglass pole that is similar in style. The new fixtures would also utilize induction style lighting, which is more energy efficient.

The Capital Outlay budget includes funding in the amount of \$75,000 for design of a new Public Works facility on the existing site to meet the current operational needs of the department. The current structure is a cinder block building that is poorly insulated. The City's vehicle and equipment fleet is much larger than it was at the time of the Public Works facility's construction, and there is inadequate storage to accommodate the current fleet. There are deficiencies in the facilities available for the washing of vehicles, and there are problems with site drainage.

The Capital Outlay budget includes \$65,000 for improvements to the City's neighborhood commercial centers. As part of the Council's development priority, staff has conducted a series of workshops with City residents to discuss aspects of the Master Plan. The requested funding will allow implementation of some of the ideas arising out of the workshops.

A contribution of \$500,000 to the Equipment Replacement Reserve is proposed to ensure funding for the future replacement of equipment and vehicles. As discussed during the FY07 budget process, staff recently identified a number of items, including computer servers and certain police equipment, which should be included in the Equipment Replacement Reserve program. A higher contribution is warranted in FY08 to ensure that there are sufficient funds in the Equipment Replacement Reserve to provide for the replacement of these items.

General Fund Fund Balance

Fund balance represents the accumulation of the difference between actual revenues and expenditures. The source and timing of revenues, as well as the stability of revenue sources, dictate the level of fund balance necessary to avoid cash shortages in normal day-to-day operations.

The General Fund is anticipated to begin FY08 with a fund balance of \$5.07 million. Approximately 23 percent of this amount is set aside for specific purposes and is not available for general operations of the City. These purposes include the Equipment Replacement Reserve, and the Emergency Reserve.

The proposed budget for FY08 assumes other financing sources in the amount of \$229,500 from the sale of City-owned property. The budget contemplates the use of \$1.15 million in fund balance monies. Of this amount, about \$294,000 represents the anticipated expenditure of Equipment Replacement Reserve funds. Operating transfers in the amount of \$36,750 will be made from the General Fund to the Special Revenue funds. The balance will be used to make up the difference between operating revenues and expenditures during the fiscal year. In my opinion, it is appropriate to use surplus monies for non-recurring expenditures, such as special consulting projects or capital items. Fund balance monies should not be used for ongoing operational expenses.

As of June 30, 2008, the General Fund is projected to have a fund balance of \$3.93 million. Included in this amount are the monies designated for the Equipment Replacement Reserve and the Emergency Reserve, as well as funds received from WSSC for future street work. Combined, these restricted funds are projected to total approximately 39 percent of the total General Fund fund balance.

In accordance with the Charter of the City of Takoma Park, the FY08 budget includes two contingency accounts. Combined, these accounts equal 2.5 percent of budgeted revenues and are budgeted in the non-departmental unit of the General Fund. For the purpose of projecting the fund balance as of June 30, 2008, I have assumed expenditure of the full amount of the

contingency accounts during the fiscal year. If no contingency monies are expended, the projected fund balance would increase by approximately \$467,000.

STORMWATER MANAGEMENT FUND

The City is responsible for providing stormwater management services within its corporate boundaries. These services, which are directed by the Public Works Department, include the construction and the maintenance and repair of storm drains, inlets, channels, and ditches. Additionally, the City ensures compliance with state and federal requirements for erosion and pollution control associated with stormwater run-off.

The Stormwater Management Fund accounts for revenue and expenditure activities related to stormwater management.

Revenues

Almost all fund revenues are derived from stormwater management fees paid by property owners in the City. Other Stormwater Management Fund revenues are derived from permit fees, late fees, interest charges, and investment earnings.

All property owners in the City pay a fee that is based on the amount of impervious surface on the property. Each single-family residential dwelling unit is billed at a flat rate equal to the average amount of impervious surface on a single-family lot (1,228 square feet). The proposed budget for FY08 assumes no change in the base rate of \$48, which was implemented in FY07.

Revenue Source	Budgeted FY07	Estimated FY07	Proposed FY08
Use of money and property	\$ 500	\$ 0	\$ 0
Charges for service	376,000	369,297	365,000
Total Revenues	\$376,500	\$369,297	\$365,000

Expenditures

The proposed budget reflects total Stormwater Management Fund expenditures of \$356,084. The following table summarizes projected expenditures for FY08 by classification of expenditure. Budgeted and estimated expenditures for FY07 are provided for comparative purposes.

Classification of Expenditure	Budgeted FY07	Estimated FY07	Proposed FY08
Public Works	\$249,198	\$246,013	\$256,084
Capital Outlay	100,000	100,000	100,000
Total Expenditures	\$349,198	\$346,013	\$356,084

Fund expenditures include 50 percent of the personnel cost of the City Engineer, who directs the City's stormwater management activities.

Costs associated with the maintenance and repair of the City's stormwater system, as well as capital projects, are also accounted for in the Stormwater Management Fund. As noted previously in this transmittal message, the vast majority of fund revenues are derived from stormwater management fees paid by property owners in the City. These fees are billed in the third quarter of the fiscal year, which affects the timing of fund expenditures. As a result, the majority of capital projects will be constructed late in the fiscal year.

FY08 capital projects include completion of Phase Two of the Cleveland Avenue project and continuation of work at Spring Park. Other projects include the installation of new inlets and pipe on Albany and Buffalo Avenues and replacement of pipe at Columbia and Poplar Avenue.

Fund Balance

The Stormwater Management Fund is anticipated to begin FY08 with a fund balance of \$174,724. The projected fund balance as of June 30, 2008 is \$183,640.

SPECIAL REVENUE FUNDS – OVERVIEW

The City receives a variety of federal, state, and county grants that provide funding for law enforcement, community revitalization, park development, and infrastructure improvements. The City utilizes Special Revenue Funds to account for revenue and expenditure activity attributable to the specific project funded by each grant.

Revenues

The following table summarizes projected Special Revenue Fund revenues and other financing sources for FY08. Budgeted and estimated revenues for FY07 are provided for comparative purposes.

Revenue/Financing Source	Budgeted FY07	Estimated FY07	Proposed FY08
Intergovernmental	\$1,096,964	\$ 923,211	\$694,405
Operating transfer in	85,881	85,075	36,750
Total Revenues	\$1,182,845	\$1,008,286	\$731,155

The grant funding reflected above will come from a number of entities, including the Governor's Office of Crime Control and Prevention, the United States Department of Homeland Security, the Community Development Block Grant Program, and the State Highway Administration.

Program Open Space grants require a 25 percent matching contribution from the City. This amount is recorded as an operating transfer from the General Fund.

Expenditures

The proposed budget for FY08 reflects total Special Revenue Fund expenditures of \$777,732. The difference between revenues and expenditures is due to the expenditure of cable equipment grant monies in excess of those to be received in FY08.

Projects and programs to be funded with grant monies during the fiscal year include the following:

Collaborative Supervision and Focused Enforcement (CSAFE) Program in the Takoma/Langley Crossroads

Streetscape improvements along the commercial section of Holton Lane

Improvements to Jackson-Boyd Park and Jequie Park

Intersection improvements to enhance the safety of children coming to and from school

The following table summarizes these expenditures by department. Budgeted and estimated expenditures for FY07 are provided for comparative purposes.

Classification of Expenditures	Budgeted FY07	Estimated FY07	Proposed FY08
General Government	\$ 87,369	\$ 46,559	\$100,500
Police	323,312	320,148	159,261
Public Works	529,192	458,573	120,000
Housing & Comm. Development	179,299	100,229	252,971
Recreation	62,167	62,167	145,000
Total Expenditures	\$1,181,539	\$987,676	\$ 777,732

Fund Balance

The Special Revenue Funds is anticipated to begin FY08 with a fund balance of \$308,562. The projected fund balance as of June 30, 2008 is \$261,985, which is comprised of accumulated cable equipment grant monies.

COMMUNITY CENTER FUND

The Community Center Fund was established in FY03 to account for revenue and expenditure activity attributable to construction of the facility. Prior to its establishment, expenditures were accounted for in the Special Revenue Funds.

The proposed budget assumes that all activities associated with Phase One and Phase Two of the Community Center project will be complete as of June 30, 2007.

During FY07, a feasibility study of the proposed construction of a gymnasium on the site of the Community Center was completed and presented to the Council and to the community. The City applied for and did not receive State bond bill funding for the project. As of the date of this transmittal message, there has been no decision to move forward with construction of a gymnasium. Consequently, the proposed budget does not reflect any expenditures for the project.

In March 2006, the Council authorized the issuance of a Request for Proposal to identify options for renovation of the Council Chamber/Auditorium for use as both a meeting space and as a performing arts venue. Proposals are due on April 23, 2007. Pending Council direction on this matter, no funds are included in my proposed budget for either the hiring of a consultant or the renovation of the Council Chamber/Auditorium.

By Resolution No. 2006-20, the City Council authorized the use of \$435,575 in FY07 Program Open Space funds for the conceptual design and possible eventual construction of a gymnasium as the third phase of the Community Center project; POS monies are distributed on a reimbursement basis. Based on the City's cost for the gymnasium feasibility study, \$40,030 of the FY07 POS funds will be applied to the feasibility study of the proposed gymnasium. The balance remains available for the gymnasium project or, alternatively, could be reprogrammed for the Council Chamber/Auditorium renovation.

The City was awarded \$360,000 in State bond bill monies for FY07, ostensibly for the gymnasium project. These funds are distributed on a reimbursement basis. Pending further discussion and direction from the City Council regarding the proposed gymnasium project, these monies are not reflected in my proposed budget for FY08.

The only project related to the Community Center Fund that is contemplated for FY08 is the

installation of interior building signage. Due to its minor cost, the project is included in the Capital Outlay division of the General Fund.

SUMMARY

The City's annual budget determines the manner in which services will be delivered to the community during the fiscal year. As such, adoption of the budget is the most important action that the Council takes each year.

The staff and I look forward to working with you to finalize a budget for FY08 that addresses the needs of the Takoma Park community.

Sincerely,

Barbara B. Matthews
City Manager